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Russian invasion of Ukraine and Supply Chains

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A Russian invasion of Ukraine caused many disruptions to international supply chains across industries. Russian president Vladimir Putin announced a "special military operation" on 24 February 2022. China is a top manufacturing country, and the second largest economy. According to the United Nations Statistics Division, China made 28.7% of the total global output (nearly \$4 trillion) for manufacturing in 2019. In addition, China is the only country recognized by the United Nations as having a complete industrial system. In other words, China has the most complete supply chains in the world, you can find all industries in the China's supply chains. At the time this was written, the invasion shows no signs of abating. The war has so far been longer than many expected. In this article, we narrowly focus on the world's largest manufacturing country – China and discuss about how the invasion will ultimately affect China's supply chains and impacts on the UK businesses.

Price rises

As we can see, the Russian invasion of Ukraine has already had a huge impact on the economies of both countries. In 2021, Ukraine exported US\$68.9 billion worth of goods to the world. The main export commodities are raw materials and agricultural products, such as iron, cereals, Ores, wood. Mainland China is the largest importer of Ukraine. Russia's main export commodities are minerals products. The export value amounted to nearly 275.6 billion U.S. dollars in 2021. Obviously, the war has driven up the price of raw materials and energy in the world. China's supply chains also under pressure from rising commodity prices.

Changing supply

The Russian-Ukraine war not only caused disruptions in the international logistics and supply chain, but also changed the supply and demand of the international supply chain. Since the invasion of Ukraine began, over 1000 international companies including Chinese companies have curtailed their business activities in Russia. The international sanctions further alter the international supply chains. Many Chinese companies must change suppliers and stop cooperating with Russian partners. More importantly, we concerned the impacts on the largest manufacturing country and Russia's neighbour – China. The war between Russia and Ukraine appears to have little impact on China's supply chains so far, as China complies with U.S. sanctions on Russian exports. Simultaneously, China provides economic support to Russia, for example, China increases imports of Russian oil and gas, and Chinese goods are gradually replacing European goods in the Russian market. Since the invasion, Russian exports to China increased by 48.8%. China is trying to be the beneficiary of this war.

Moving out of China

Although researcher argues that the movement out of local manufacturing is not going to be significant enough to really alter the China's role in the global supply chains now, author do not feel optimistic about the future of China's supply chains. Not to mention China's zero-Covid policy, domestic economic downturn, intransparent government, and aging population. The trade war between the US and China is not over. It is an economic and trade conflict between the mainland China and the United States since 2018 in the Trump administration. A lot of multinational companies have already moved out of China. In fact, research shows a third of supply chain leaders plan to move their manufacturing out of China before 2023. We consider this invasion will only accelerate the trend. UK companies should pay more attention to these changes, as supply chains must support firms' strategic objectives in a long run.

China market decline

Although there is no direct evidence that the invasion significantly affected the Chinese market, author conducted research on international forest supply chains in New Zealand, the results show that China's log imports have been significantly declining, due to the shrinking of the Chinese economy. China is the world's largest importer of softwood and hardwood logs. New Zealand exported more than 80 percent of the raw logs to China in 2021. We collected the first-round of data in early 2020 and the second round in 2022, we can clearly see the growing concern about the Chinese market declining and economic recession. This would affect from the market (downstream supply chain) to the upstream supply chain operations. China market decline may be a long-term trend. The invasion will make it difficult for the Chinese market to recover worldwide in a short period of time.

US-China Decoupling

News report that the US-China trade war has indeed siphoned orders away from China and the US to alternative suppliers. Unfortunately, China now has actively prepared to decouple its supply chains from the United States and western countries. China feels that its comprehensive strength can already compete with the Western world. It is a danger signal. The Russian invasion of Ukraine will only escalate the US-China decoupling process, as China's supply chain uncertainty will increase globally. International competition increases efficiency and lowers prices, but there are no winners for decoupling supply chain in a short run.

Increasing uncertainty

COVID-19 pandemic already caused many uncertainties in the global supply chain operations. China is only country sticking to zero-Covid policy with lockdowns. The Russian invasion of Ukraine will further increase the supply chain uncertainty. From China's supply chain perspective, the invasion may provide both opportunities and challenges to Chinese business, such as, chinses buyers can buy gas and oil from Russia without any restrictions, China bought \$7.47 billion worth of Russian energy products in May 2022. However, due to Western sanctions, China suspended the investment in the Russia's natural gas sector.

New transformation

China must face new transformation. On Sunday, 16 Oct 2022, at the 20th Communist Party Congress, Chinese president Xi Jinping emphasized the need to build "cultural confidence" and develop China's socialist culture. The China's transformation process already started. China attempts to invest more on technologies, education, and innovations to reboot its economy. The Belt and Road Initiative (BRI) is used to increase China's influence including both political and military in the world. Although BRI has received a lot of criticism and questions, it plays a very important role in China's supply chains and diplomacy. BRI helps China's domestic enterprises to go global and internationalise. But the Russian invasion may slow the entire process down.

Implications to the UK business

In 2021, the UK imported £63.6 billion worth of goods from China. This accounted for 13.3% of all goods imports. China is the UK's largest importing partner. The companies in the UK must have a contingency plan to tackle the international supply chain disruptions in a short term. In a long run, the US-China trade war including the US-China decoupling supply chains may have a significant impact on the UK business, as the international companies may search for new suppliers, this may offer new opportunities for the UK companies. Brexit shows a rejection of globalisation. Not surprised, China U-turns on the "opening of China". The UK business need a strategic plan to address it. Supply chain risk management is an important task in an international company. Managers should keep an eye on changes in the international market and supply chains, not just the downstream supply chain, but also the upstream supply chain. Moreover, an increasing number of international firms are adopting a "China plus one" strategy or avoiding investing in China alone to make sure that they have alternatives in their international supply chains. Countries such as India, Vietnam and Mexico have clearly benefited from this trend.

We only briefly discussed few important impacts of Russian-Ukraine war on China's supply chains. Different industries may have different impacts. Furthermore, as the time of the war increases, more impacts will appear. The Russian invasion of Ukraine can increase the negative effects on the global supply chains. An effective and stable international supply chain requires international cooperation and collaboration. We call for an end to Russian-Ukraine war and international cooperation in the international supply chains.